

DRUG CARD AND MEDICAID SPENDDOWN

Qs AND As

Q: What is a Medicaid “spenddown?”

A: States with medically needy programs and states that determine Medicaid eligibility of the aged, blind, and disabled using more restrictive eligibility criteria than are used by the supplemental security income (SSI) program (known as 209(b) states) set an income limit that a Medicaid beneficiary may not exceed. Under the spenddown process, State Medicaid agencies, when evaluating applicants whose income is higher than the income limit, must count these applicants’ out-of-pocket health care expenses (or their liability to pay such incurred expenses,) and deduct those “incurred medical expenses” from the applicant’s income to see if the person's income is low enough to qualify for Medicaid. Thus, individuals who are not eligible for Medicaid because their income is too high can become eligible when their incurred medical expenses offset their excess income. The act of counting up these incurred medical expenses and deducting them from income is called “spending down” to the income limit. Hence the term “spenddown.”

Q: Can Medicare beneficiaries who apply for Medicaid in states that use a spenddown methodology qualify for a drug card? How would drug card eligibility work for them?

A: Yes. Individuals who are spending down excess income but who have not spent down to the income level and who meet the income thresholds for the \$600 credit and who are not currently receiving Medicaid outpatient drug coverage or most other outpatient drug coverage from, for example, group health or retirement plans, may apply for the card and the \$600 credit. Further, individuals will remain eligible for the card and the \$600 credit even if they later meet their spenddown and gain access to Medicaid drug coverage.

Q: Will the \$600 credit or discounts available to card holders prevent or delay an individual's eligibility for Medicaid under a spenddown?

A: No. Neither the \$600 credit nor the discount prices will prevent or delay an individual’s eligibility for Medicaid. As described below, the discount and the \$600 credit will be treated as incurred medical expenses for purposes of Medicaid spenddown, and there will be no delay in the onset of Medicaid eligibility.

Q: Will the price of prescription drugs purchased with the Medicare-approved drug discount card be deducted from income as an incurred medical expense when determining someone's eligibility under Medicaid spenddown?

A: Yes. As described below, the price of prescription drugs purchased with the Medicare-approved drug discount card will be treated as an incurred medical expense and deducted from the person's income when determining his or her eligibility under Medicaid spenddown rules.

Q: What part of the \$600 credit counts toward incurred medical expenses for spenddown?

A: Any discount received and any portion of the \$600 credit which is used to pay for prescription drugs must be treated as an incurred medical expense by the beneficiary for Medicaid spenddown purposes. That methodology is described below.

Q: How will Medicaid calculate the applicant's level of drug spending to apply to spenddown?

A. If at all possible, the applicant should provide a receipt from the pharmacy that shows the "pre-discount" price of the drug. The "pre-discount" price is the price the person would have had to pay for the drug if he or she did not have a Medicare-Approved Drug Discount Card. If the applicant doesn't have such a receipt, the state Medicaid program could call the pharmacy directly to get the "pre-discount" price of the drug, or the state can use receipts for prescriptions that the individual purchased before enrolling for the card.

If no information about the actual 'pre-discount' price is available, the state Medicaid program will use an "imputed" value based on a national average amount paid for prescriptions as the amount of the incurred medical expense for the prescription drug. However, if the applicant can provide evidence satisfactory to the state Medicaid program that he or she actually paid more than the imputed value for a particular prescription, the amount the applicant can document will be used as the incurred medical expense.

Q: If prescription drug or beneficiary co-payment amounts are paid by a State Pharmacy Assistance Program (SPAP), can that cost be counted toward incurred medical expenses for spenddown?

A: Yes. The cost of prescription drugs paid in whole or in part with SPAP funds or funds from any other public program of the state or political subdivision of the state that consists solely of state money (e.g., no federal funds are involved) can be counted as an incurred medical expense for Medicaid spenddown purposes.

Q: How many states have a program under which a beneficiary may become eligible by using spenddown?

A: 36 states and the District of Columbia use spenddown programs. 32 states and the District have a medically needy program: Arkansas, California, Connecticut, District of Columbia, Florida, Georgia, Hawaii, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland,

Massachusetts, Michigan, Minnesota, Montana, Nebraska, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Pennsylvania, Rhode Island, Tennessee, Utah, Vermont, Virginia, Washington, West Virginia, and Wisconsin. 11 states use spenddown under the 209(b) provisions: Connecticut, Hawaii, Illinois, Indiana, Minnesota, Missouri, New Hampshire, North Dakota, Ohio, Oklahoma and Virginia.

Q: What is “Pay In” spenddown and how does it work?

A: A state that covers the medically needy may choose to use the “pay in” spenddown option to use in tandem with its regular spenddown methodology. Pay in spenddown permits States to allow medically needy families to meet the spenddown requirements through cash payments to the State as an alternative or in addition to incurring expenses for medical or other types of remedial care. That means the family could become eligible at the beginning of each budget period rather than having to wait until they have incurred enough expenses.

Pay in spenddown is voluntary on two levels. States can elect to offer a pay in spenddown system, but use of pay in spenddown is optional for each medically needy individual. Thus, although an individual state could offer a pay in system, not all medically needy individuals are necessarily meeting their spenddown through that system. Some may elect to use the traditional spenddown methodology.

Q: Which States permit Pay In spenddown?

A: As far as we know, only the following 5 states have elected the Pay In spenddown option. They are: Minnesota, Montana, New York, Utah, and Wisconsin.

Q: If a State has elected the Pay In spenddown method, can that beneficiary get a drug card?

A: Only if a dually eligible beneficiary’s Medicaid coverage lapses. Pay in spenddown allows the beneficiary to pay-in a proxy for their incurred medical expenses at the beginning of the State’s medically needy budget period. In theory, this eliminates the traditional gap in medically needy coverage. Medicaid coverage would be continuous with no lapse for beneficiaries who pay in on a timely basis. As a beneficiary with Medicaid outpatient drug coverage, he or she would not be eligible for a drug card. However, any time a dually eligible beneficiary’s Medicaid coverage lapses, during that window, he or she would be eligible to apply for the drug card and the \$600 credit.

Q: If an individual gets the \$600 credit from Medicare and later becomes eligible for Medicaid, does he lose the \$600 credit?

A. No, individuals who become eligible for Medicaid after receiving the \$600 credit will not lose the credit. In this case, Medicaid becomes the primary payer for drugs covered by Medicaid. The individual can save whatever remains of the \$600 credit to use in the future should he lose Medicaid benefits (or to use for drugs that are not covered by Medicaid), up until the time that outpatient drug coverage becomes available from the new Medicare Prescription Drug Plans.

Further guidance on this point will be forthcoming regarding those beneficiaries who access their \$600 credit through the specially-endorsed Medicare-approved discount drug cards participating with long term care facility pharmacies and with Indian Health Service, Tribes and Tribal Organizations, and Urban Indian Organization pharmacies. All these drug card sponsors are not yet fully underway.

Q. What if a beneficiary in spenddown applies for the drug card or the \$600 credit and receives a letter saying they were rejected because data shows that they are receiving a Medicaid outpatient prescription drug benefit? What if that's not true and the beneficiary did not have access to Medicaid drugs at the time they applied?

A. The beneficiary should follow the instructions in the denial letter for a reconsideration. They need to provide the reconsideration staff with documentation that shows their Medicaid benefits had stopped during the time they applied for the drug card or the \$600.

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